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KWUNG'S HOLDINGS LIMITED

曠世控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1925)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The Board hereby announces the annual results of the Group for the year ended 31 December 2020.

FINANCIAL HIGHLIGHTS

	2020	2019	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	472,179	501,131	(5.8)%
Gross profit	108,149	133,679	(19.1)%
Gross profit margin	22.9%	26.7%	
Profit for the year	40,756	27,810	46.6%
Adjusted profit for the year	41,268	45,263	(8.8)%
Earnings per share (basic and diluted)	10.2 cents	9.3 cents	10.0%
Dividend proposed in respect of the year (per share)	–	–	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a prominent original design manufacturer and supplier of home fragrance products, innovative home products and home decoration products comprising our core products such as home fragrance candles and fragrance diffusers. Home fragrance products and innovative home products are widely used in people's daily life.

The revenue of the Group for the year ended 31 December 2020 amounted to approximately RMB472.2 million, with profit of approximately RMB40.8 million. Although our revenue decreased by approximately 5.8% for the year ended 31 December 2020 as compared to that of 2019 due to the impact of COVID-19, profit increased approximately 46.6% for the year ended 31 December 2020 as compared to that of 2019. Among these, the sales of candles (including fragrance candles), home fragrance products (including fragrance diffusers) and home accessories (including innovative home products and home decoration products) reached approximately RMB299.6 million, RMB83.2 million and RMB89.4 million, representing approximately 63.5%, 17.6% and 18.9% of the Group's total sales for the year ended 31 December 2020, respectively.

The Group's products are mainly sold to overseas markets in more than 20 countries and regions, including France, the United Kingdom, the Netherlands, Germany, Canada and Australia. In the first half of 2020, due to the impact of COVID-19, certain customers requested for postponement of the shipment of our products and there has been some cancellation of purchase orders from our customers. However, benefiting from our niche in research and development in designs and supply chains, and the long-standing, sound and steady business relationship with our main customers in Europe, our performance in orders and delivery had rebounded swiftly under the effective domestic control over the pandemic in the PRC, with sales of approximately RMB312.5 million in the second half of 2020 representing an increase of approximately 95.7% from the first half of the year.

Moreover, the Group launched an online showroom at the beginning of the year. The showroom displays various products for customers' selection and purchase, where our sales team will introduce the details of the product sizes and prices of the products on the online showroom. The online showroom has been very helpful for the Group's business in the midst of restrictions on social activities such as trade fair and exhibition events.

In 2020, the sales of the Group's self-branded products reached approximately RMB19.1 million, representing an increase of approximately 56.7% as compared to that of 2019, among which offline sales reached approximately RMB13.7 million and online sales reached approximately RMB5.4 million. As at 31 December 2020, the number of self-branded retail stores has increased to 27, which is an increase of 17 stores as compared to the corresponding period in 2019. Store sales has increased by 3.3 times as compared

to the corresponding period in 2019. Online sales performance of self-branded fragrance products has also improved in 2020, with an increase in sales by 1.4 times as compared to the corresponding period in 2019.

The Group possesses advanced sizable manufacturing bases and has a long-term cooperative relationship with suppliers of raw materials and consumables and contract manufacturers which forms a comprehensive system of supply chain. In spite of the keen competition, the Group has further solidified the leading industry position of the production and sales of its home fragrance candles and fragrance diffusers over the last year due to self-owned and controllable cost control in the supply chain and effective pricing strategies as well as flexible order-taking ability and abundant production capacity.

The Group has a strong technical research and development team. As of 31 December 2020, the Group has obtained 74 invention patent, utility model and appearance design patent. During 2020, the Group has enhanced the technical research and development and product development of personal-care products, strived to make a technology breakthrough in, among other things, ingredients of essential oils and time of fragrance depositing, and promoted personal-care daily products with brand-new ingredients at the market, such as perfume, shampoos, bath foam and moisturisers of essential oils.

The Group possesses a design team with extensive experience and abundant creativity, which can conduct the innovation design and development of products based on users' living scenario and consuming situation, and closely cooperate with partners to optimize and innovate the products.

The Group possesses advanced sizable manufacturing bases and has a long-term cooperative relationship with suppliers of raw materials and consumables and contract manufacturers which forms a comprehensive system of supply chain. The Group is upgrading the equipment and technique for production, and actively planning for the construction of a new production line so as to enhance the ability of quantitative manufacturing and realize flexible production effectively based on the customized needs of customers and the order structure.

In spite of the keen competition, the Group has further solidified the leading industry position of the production and sales of its home fragrance candles and fragrance diffusers over the last year due to self-owned and controllable cost control in the supply chain and effective pricing strategies as well as flexible order-taking ability and abundant production capacity.

FINANCIAL REVIEW

Revenue

The Group's revenue mainly arises from the export sales of the Group's candle products, home fragrance products and home accessories during the year. It decreased by approximately RMB29.0 million or 5.8% to approximately RMB472.2 million for the year ended 31 December 2020 from approximately RMB501.1 million for the year ended 31 December 2019. The decrease in revenue was mainly due to the cancellation of some purchase orders by the Group's existing customers during the first half of the year as a result of the outbreak of COVID-19. In addition, the Group mainly has export sales to European countries and the purchase orders are denominated in United States dollars. As such, the depreciation of United States dollars against RMB during the year ended 31 December 2020 has negative impact on the Group's revenue for the year ended 31 December 2020.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately RMB25.5 million or 19.1% to approximately RMB108.1 million for the year ended 31 December 2020 from approximately RMB133.7 million for the year ended 31 December 2019. Such decrease in gross profit was mainly because of the decrease in the Group's revenue during the year ended 31 December 2020.

The Group's gross profit margin decreased to 22.9% for the year ended 31 December 2020 from approximately 26.7% for the year ended 31 December 2019. Such decrease was mainly due to the depreciation of United States dollars against RMB during the year ended 31 December 2020 as mentioned above, which resulted in a decrease in revenue but contributed to a minimal saving in the production costs of the Group since the majority of the Group's suppliers are local enterprises in the PRC and the Group was billed in RMB.

Other income

The Group's other income mainly comprises income from government grants in the PRC and also the rental income earned from leasing the Group's properties. The increase in other income during the current year was mainly contributed by the grant from the local government in the PRC to support the Group against COVID-19, and also the grant from the local government in the PRC in reward to the overseas investment in the Group's PRC subsidiary during the year ended 31 December 2019. There was also a small rental income earned in respect of the Group's building which has been leased to an independent third party during the year ended 31 December 2020, contributing to the increase in other income.

Administrative expenses

The Group's administrative expenses mainly comprise payroll costs for management team and supporting staff, expenses incurred in relation to the Listing, cost of raw materials consumed for research and development purpose, depreciation expenses in relation to the Group's office buildings and office equipment and cost of utilities for office use.

There was a decrease in administrative expenses of approximately RMB19.5 million or approximately 27.8% to approximately RMB50.8 million for the year ended 31 December 2020 from approximately RMB70.3 million for the year ended 31 December 2019. Decrease in the Group's administrative expenses for the year ended 31 December 2020 was mainly due to the non-recurring expenses incurred in relation to the Listing of approximately RMB18.1 million during the year ended 31 December 2019.

Selling and marketing expenses

The Group's selling and marketing expenses mainly comprise payroll costs for staff in the sales departments, sample inspection and delivery costs, commissions to agents, advertising and promotion expenses and operating costs for the Group's retail stores.

There was an increase in selling and marketing expenses of approximately RMB9.1 million or 106.5% to approximately RMB17.7 million for the year ended 31 December 2020 from approximately RMB8.6 million for the year ended 31 December 2019. Increase in the Group's selling and marketing expenses for the current year was mainly due to additional advertising costs incurred to promote the online direct sales channel, costs incurred to establish the online showroom in response to the outbreak of COVID-19 and also the operating costs for the newly set up self-operated retail stores.

Other gains and losses

The Group's other gains and losses mainly comprise net foreign exchange differences, net fair value changes on foreign exchange forward contracts, net fair value changes on wealth management products issued by commercial banks and also donation expenses.

The Group recorded net other gains of approximately RMB0.1 million for the year ended 31 December 2020, as compared to net other losses of approximately RMB23.1 million for the year ended 31 December 2019.

The significant improvement of the net other gains and losses for the year ended 31 December 2020 was mainly due to the better arrangement made against foreign currency exposure arising from purchase orders from overseas customers, which are mainly denominated in United States dollars. Changes in exchange rate of RMB against United States dollars causes foreign exchange differences arising from the trade receivable balances denominated in United States dollars. Such foreign exchange exposure is managed by entering into foreign exchange forward contracts with the financial institutions in the

PRC. The foreign exchange exposure can be perfectly eliminated if the maturity dates of the foreign exchange forward contracts match perfectly with the sales cycle of purchase orders from overseas customers and if the underlying amounts of the foreign exchange forward contracts match perfectly with the total amount of purchase orders from overseas customers. There has been improvement in determining the maturity dates and also the underlying amounts for the foreign exchange forward contracts, resulting in a lesser net foreign exchange losses for the year ended 31 December 2020.

Net finance income/(costs)

The Group's net finance income/(costs) represents the interest income earned from financial institutions and the Group's finance costs comprising interest charged on a short-term bank loan and also the interest expense component on the operating lease arrangement in relation to the Group's leased production facilities.

There is an increase in the Group's interest income by approximately RMB0.8 million or 658.0% to approximately RMB0.9 million for the year ended 31 December 2020 from approximately RMB0.1 million for the year ended 31 December 2019. Such increase was mainly because of the larger balance maintained at the banks after receiving the proceeds from the Listing in January 2020.

Income tax expense

The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(ii) BVI income tax

Under the current laws of the BVI, entities incorporated in BVI are not subject to tax on their income or capital gains.

(iii) Hong Kong income tax

Income tax provision of the Group in respect of operations in Hong Kong has been calculated at the applicable tax rate on the estimated assessable profits for the year ended 31 December 2020, based on the existing legislation, interpretations and practices in respect thereof. The statutory tax rate was 16.5% for the year ended 31 December 2020. No provision for Hong Kong profits tax was made for the year ended

31 December 2020 as the utilisation of previously recognized tax losses. The Group did not derive any income subject to Hong Kong profits tax during the year ended 31 December 2019.

(iv) PRC corporate income tax

Income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the years, based on the existing legislation, interpretations and practices in respect thereof. The statutory tax rate was 25% for the years ended 31 December 2019 and 2020.

Ningbo Kwung's was qualified as a "High and New Technology Enterprise" since 2008 and renewed its qualification in November 2020, and it is subject to a reduced preferential corporate income rate of 15% from 2008 until November 2023.

In addition, according to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2018, during the period from 1 January 2018 to 31 December 2020 enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year. Management of the Group assess that the Group is eligible to such claim for the years ended 31 December 2019 and 2020.

There was an increase in the Group's income tax expense by approximately RMB2.5 million or 53.6% to approximately RMB7.3 million for the year ended 31 December 2020 from approximately RMB4.8 million for the year ended 31 December 2019. Such increase was mainly due to the increase in profit before tax of the Group's PRC subsidiaries for the year ended 31 December 2020.

The overall effective tax rate of the Group maintained at a similar level. The effective tax rates for the years ended 31 December 2019 and 31 December 2020 are approximately 14.6% and 15.2% respectively, which are in line with the reduced preferential corporate income tax rate for the Group's major PRC subsidiary.

Adjusted profit before tax and adjusted profit for the year

The Group recognised non-recurring items for the years ended 31 December 2019 and 31 December 2020. To supplement the financial information prepared and presented in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants, the adjusted profit before tax and adjusted profit for the year is also presented below for the purpose of better analysis on the Group's financial performance from its ordinary business.

Such additional financial information is presented as these were used by the Group's management to evaluate the Group's financial performance by eliminating the impact of non-recurring expenses in relation to the Listing which are considered not indicative for evaluation of the actual performance of the Group's business. The Group's adjusted profit before tax and adjusted profit for the year are not measures of performance under HKFRSs. It is believed that these non-HKFRSs measures are a more accurate indication of the Group's profitability and operating performance for the years ended 31 December 2019 and 31 December 2020. However, these non-HKFRS measures should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of the Group's operating performance or other consolidated operations data prepared in accordance with HKFRSs. The use of non-HKFRSs measures has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant years.

The table below sets forth the Group's adjusted profit before tax and adjusted profit for the years ended 31 December 2019 and 31 December 2020:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Adjusted profit before tax		
Profit before income tax	48,062	32,568
Adjustment for expenses in relation to the Listing	512	18,116
	<u>48,574</u>	<u>50,684</u>
Adjusted profit for the year		
Profit for the year	40,756	27,810
Adjusted for:		
(i) Expenses in relation to the Listing	512	18,116
(ii) Corresponding tax impact ⁽¹⁾	–	(663)
	<u>41,268</u>	<u>45,263</u>

Note 1: The corresponding tax impact is calculated by deducting certain expenses in relation to the Listing incurred by Ningbo Kwung's and applying the tax rate of 15%.

Property, plant and equipment

The Group's property plant and equipment mainly comprise net carrying amounts of the office building, production plants, machinery and the corresponding capitalised renovation costs. There was a decrease in the net carrying amounts of the Group's property, plant and equipment by approximately RMB2.8 million during the year ended 31 December 2020

which was mainly due to the net impact of (i) the costs incurred for the renovation of the new production plants in Yinzhou District, Ningbo City, Zhejiang Province, the PRC, for the expansion of production capacity; (ii) transfer out of a building located in Ningbo City, Zhejiang Province, the PRC, from self-use to lease to independent third parties during the year; and (iii) depreciation charge for the current year.

Right-of-use assets

The Group's right-of-use assets comprise net carrying amounts of the prepaid land use rights for the lands used by the Group's office building and production plants, and also the net carrying amounts of the properties leased by the Group.

Decrease in balance during the year ended 31 December 2020 was mainly due to depreciation charge in relation to the leased properties in Yinzhou District, Ningbo City, Zhejiang Province, PRC, during the current year.

Investment properties

The Group's investment properties represent the building located in Ningbo City, Zhejiang Province, the PRC, owned by the Group. Such building was used by the Group for production in the prior years and has been leased to independent third parties as warehouses during the year ended 31 December 2020. The Group has completed the setup of the new production facilities in Yinzhou District, Ningbo City, Zhejiang Province, PRC, during the year ended 31 December 2020, releasing new and additional production capacity for the Group. However, the Group encountered a change in demand on its products during the year ended 31 December 2020 due to the outbreak of COVID-19. Despite management of the Group is still optimistic on the business growth of the Group, a downward adjustment has been made to the forecast on the purchase orders on the Group's products in the short run. Accordingly, the Group arranged short-term leases for the vacant space released from those old production lines to generate certain rental income, which is believed to be beneficial to the Group in the short run.

Inventories

The Group's inventory balance comprises raw materials, work in progress and finished goods for the Group's candle products, home fragrance products and home accessories products. There was an increase in the Group's inventory balance by approximately RMB12.4 million or 29.0% to approximately RMB55.0 million as at 31 December 2020 from approximately RMB42.7 million as at 31 December 2019 which was mainly due to the pile up of some finished goods which were pending to be delivered to the customers as at 31 December 2020. The outbreak of COVID-19 has impact on the freight arrangement across countries resulting in delay in delivery of finished goods to overseas customers. Most of the Group's finished goods have been delivered to the customers up to the date of this announcement.

Trade receivables

Trade receivables balance as at 31 December 2020 mainly represented outstanding balance from the Group's overseas customers. There was an increase in trade receivables balance before allowance for impairment of approximately RMB17.0 million or 25.8% from approximately RMB65.9 million as at 31 December 2019 to approximately RMB82.9 million as at 31 December 2020. The outbreak of COVID-19 caused postponement of some purchase orders from the Group's overseas customers from the first half of the year to the fourth quarter of the year, resulting in delay in recognising the revenue and the corresponding billings remained unsettled as at 31 December 2020.

Most of the Group's trade receivables balance were aged within 180 days. The Group experienced limited bad debt issues over the years and a small provision for impairment of trade receivables of approximately RMB1.8 million was recorded as at 31 December 2020, which is calculated based on the expected credit loss percentage for the aged trade receivables balance.

Prepayments, deposits and other receivables

The balance of prepayments, deposits and other receivables comprises mainly advances to suppliers, deferred costs in relation to the Listing, recoverable value-added tax and amounts due from related parties.

There was a decrease in the balance of approximately RMB11.8 million or 42.9% to approximately RMB15.8 million as at 31 December 2020 from approximately RMB27.6 million as at 31 December 2019, which was mainly due to the capitalisation of the deferred listing expenses upon the Listing in January 2020, and also higher utilisation of the prepayments to suppliers for purchase of raw materials in the fourth quarter of the year as a result of higher production volumes for fulfilling purchase orders from the Group's overseas customers.

Financial assets/liabilities at fair value through profit or loss

The Group arranges foreign currency forward contracts with commercial banks in PRC in respect of the exchange rate of RMB against United States dollars in response to the Group's foreign exchange exposure arising from the sales to the Group's overseas customers, which is denominated in United States dollars.

The fair value of the foreign currency forward contracts changed from an unrealised liabilities as at 31 December 2019 to unrealised assets as at 31 December 2020 as a result of the an appreciation of RMB against United States dollars throughout the year ended 31 December 2020.

Cash and cash equivalents

The balance of cash and cash equivalents as at 31 December 2020 comprised cash deposited into financial institutions in the PRC and Hong Kong.

There was an increase in the balance of approximately RMB42.9 million or 63.2% to approximately RMB110.7 million as at 31 December 2020 from approximately RMB67.8 million as at 31 December 2019. Such increase in balance was mainly because of the unutilised portion of the net proceeds raised from the Listing in the first quarter of 2020.

Trade and other payables

The balance of trade and other payables comprises mainly payables to suppliers of raw materials, amounts due to related parties and payroll payables to the Group's employees.

There was an increase in the balance of approximately RMB11.5 million or 24.6% to approximately RMB58.3 million as at 31 December 2020 from approximately RMB46.8 million as at 31 December 2019. The change in balance was mainly due to the net impact of (i) more purchase of raw materials from suppliers in the fourth quarter of the year as a result of higher production volumes for fulfilling purchase orders from the Group's overseas customers; (ii) settlement of the 2019 yearly bonus to employees during the year ended 31 December 2020; and (iii) settlement of payables to professional parties in relation to the Listing during the year ended 31 December 2020.

Lease liabilities

The balance of lease liabilities represents the present value of future lease payments in respect of office premises and production plants leased by the Group.

There is a decrease in the balance of approximately RMB3.6 million to approximately RMB5.9 million as at 31 December 2020 from approximately RMB9.5 million as at 31 December 2019 as a result of the early termination of the lease arrangement for a warehouse and also settlement to the lessors during the year ended 31 December 2020.

RECENT DEVELOPMENT

Impact from outbreak of novel coronavirus

Due to the impact of COVID-19, the time of people staying at home prolonged and more emphasis has been placed on a quality domestic living. Therefore, the sales of candles fragrance products, as a mental necessity, have boomed in the retail market, which was significant in certain areas with severe pandemic such as the United Kingdom. Sales growth in such areas can be obviously reflected in our results. There is an optimistic expectation that the rapid growing momentum of the results in the second half of 2020 will continue in the coming year.

As the emerging momentum of domestic fragrance market and the continuous growth of demands of international and domestic consumers in home products due to the outbreak of COVID-19, an enormous market opportunity has been brought into fragrance products and innovative home products. To seize that chance, the Group has formulated a strategy that the business development of other innovative home products and home decoration products can be promoted to a bigger consumer market. We are confident on the Group's performance in the foreseeable future.

Development of our business-to-consumer sales channel

The Group currently has several business-to-consumer sales channels, such as retail stores and internet sales, to the retail customers in the PRC. As at the date of this announcement, the Group operates 24 retail stores in the PRC and intends to open more retail stores in the near future. The Group expects that such expansion plan will strengthen our brand building strategy and bring forth a better growth of our sales of candle products, home fragrance products and home accessories products around the globe.

FUTURE PLANS

With a view to fuel the Group's business growth, proactively capture market opportunities, expand the sales of the Group's products and increase the Group's market shares, the Directors plan to implement the following measures: (i) establish physical presence overseas to increase market penetration of the Group's products, better serve the Group's major customers and enlarge the customer base in the Group's major market; (ii) strengthen the Group's research and development capabilities to enrich the Group's product offering and increase the overall competitiveness; (iii) upgrade the Group's information system and logistics capacities to increase operational efficiency; and (iv) enhance the Group's sales and marketing efforts to enlarge market share, cultivate brand loyalty and capture potential business opportunities in markets outside Europe.

FINANCIAL INFORMATION

The financial information below has been agreed with the external auditor of the Company.

Consolidated statement of comprehensive income

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	3	472,179	501,131
Cost of sales	4	<u>(364,030)</u>	<u>(367,452)</u>
Gross profit		108,149	133,679
Administrative expenses	4	(50,787)	(70,311)
Selling and marketing expenses	4	(17,704)	(8,574)
Net impairment losses on financial assets		(830)	(662)
Other income	5	8,600	1,919
Other gains/(losses), net	6	<u>135</u>	<u>(23,088)</u>
Operating profit		<u>47,563</u>	<u>32,963</u>
Finance income		902	119
Finance costs		<u>(403)</u>	<u>(514)</u>
Finance income/(costs), net	7	<u>499</u>	<u>(395)</u>
Profit before income tax		48,062	32,568
Income tax expense	8	<u>(7,306)</u>	<u>(4,758)</u>
Profit for the year		<u>40,756</u>	<u>27,810</u>
Profit/(loss) for the year attributable to:			
– Owners of the Company		40,846	27,820
– Non-controlling interests		<u>(90)</u>	<u>(10)</u>
Other comprehensive (loss)/income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		<u>(63)</u>	<u>9</u>
Total comprehensive income for the year		<u>40,693</u>	<u>27,819</u>
Total comprehensive income attributable to:			
– Owners of the Company		40,796	27,827
– Non-controlling interests		<u>(103)</u>	<u>(8)</u>
Earnings per share for profit attributable to owners of the Company – Basic and diluted	9	<u>10.2 cents</u>	<u>9.3 cents</u>

Consolidated statement of financial position*As at 31 December 2020*

		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		45,467	48,278
Right-of-use assets		13,028	16,720
Investment properties		4,995	–
Intangible assets		4,763	3,504
Deferred income tax assets		510	3,043
		<hr/>	<hr/>
Total non-current assets		68,763	71,545
		<hr/>	<hr/>
Current assets			
Inventories	10	55,031	42,671
Trade receivables	11	81,105	64,920
Prepayments, deposits and other receivables	12	15,753	27,566
Financial assets at fair value through profit or loss		44,726	–
Other current assets		20,000	–
Cash and cash equivalents		110,735	67,843
		<hr/>	<hr/>
Total current assets		327,350	203,000
		<hr/>	<hr/>
Total assets		396,113	274,545
		<hr/> <hr/>	<hr/> <hr/>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	13	359	–
Share premium	13	270,278	163,681
Other reserves		(29,847)	(34,556)
Retained earnings		84,418	68,957
		<hr/>	<hr/>
		325,208	198,082
Non-controlling interests		536	638
		<hr/>	<hr/>
Total equity		325,744	198,720
		<hr/> <hr/>	<hr/> <hr/>

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
LIABILITIES			
Current liabilities			
Trade and other payables	14	58,339	46,815
Contract liabilities		3,819	4,054
Current income tax liabilities		2,276	950
Financial liabilities at fair value through profit or loss		–	14,472
Lease liabilities		3,759	3,863
		<hr/>	<hr/>
Total current liabilities		68,193	70,154
		<hr/>	<hr/>
Non-current liabilities			
Lease liabilities		2,176	5,671
		<hr/>	<hr/>
Total liabilities		70,369	75,825
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		396,113	274,545
		<hr/> <hr/>	<hr/> <hr/>

Notes:

1. BASIS OF PREPARATION

The financial information is extracted from the Group's consolidated financial statements which have been prepared in accordance with HKFRSs and under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value. The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2020.

The preparation of the Group's consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the Group's accounting policies.

2. NEW STANDARD AND AMENDMENTS NOT YET ADOPTED

A number of new standard, and amendments had been issued but were not mandatory for the financial year beginning on 1 January 2020 and have not been early adopted by the Group.

The Group has already commenced an assessment of the impact of these new standard and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the Directors, no significant impact on the financial performance and position of the Group is expected when they become effective.

3. REVENUE

Revenue mainly comprises of proceeds from selling goods. An analysis of the Group's revenue by category for the years ended 31 December 2020 and 2019 is as follows:

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from customers		
Candles	299,644	318,808
Home fragrance	83,155	91,150
Home accessories	89,380	91,173
	<u>472,179</u>	<u>501,131</u>

4. EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and consumables used	158,277	150,403
Subcontracting costs	171,680	182,704
Employee benefit expenses	51,294	54,165
Transportation expenses	13,738	15,336
Utilities	2,873	3,195
Depreciation of property, plant and equipment	7,850	3,638
Depreciation of investment properties	111	–
Amortisation of intangible assets	639	419
Amortisation and depreciation of right-of-use assets	4,513	2,444
Taxes and surcharges	2,510	3,299
Travelling expenses	1,005	2,031
Operating lease expenses on short-term leases	1,706	640
Business entertainment expenses	673	784
Sample inspection and express fees	4,678	2,876
Advertising and promotion expenses	3,876	1,222
Auditor's remuneration (annual audit service)	1,311	1,150
Statutory audit fees	73	165
Other service fees	1,755	1,241
Listing expenses	512	18,116
Office expenses	1,228	668
Insurance expenses	172	237
Sales commission	1,323	876
Others	724	728
	432,521	446,337
	432,521	446,337

5. OTHER INCOME

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Other income		
Rental income	514	–
Government grants	7,700	1,919
Others	386	–
	8,600	1,919
	8,600	1,919

Government grants are mainly related to unconditional government subsidies received by the Group from relevant government bodies.

6. OTHER GAIN/(LOSSES) – NET

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Losses on disposal of property, plant and equipment – net	(72)	(38)
Gains on disposal of right-of-use assets, net	118	–
Net foreign exchange (losses)/gains	(17,339)	5,521
Net realised and unrealised fair value gains/(losses) on foreign exchange forward contracts	17,357	(27,559)
Donation expenses	(1,000)	(400)
Others	1,071	(612)
	<u>135</u>	<u>(23,088)</u>

7. FINANCE INCOME/(COSTS) – NET

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income	<u>902</u>	<u>119</u>
Finance costs		
Interest expenses	–	(250)
Interest expenses on lease liabilities	(403)	(264)
	<u>(403)</u>	<u>(514)</u>
	<u>499</u>	<u>(395)</u>

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC corporate income tax	4,773	6,663
Deferred income tax		
– PRC corporate income tax	2,533	(1,905)
	<u>7,306</u>	<u>4,758</u>

9. EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted number of ordinary shares deemed to be in issue during 2020 and 2019, respectively. The weighted average number of ordinary shares had been retrospectively adjusted for the effects of capitalisation issue on 13 January 2020.

The Company did not have any potential ordinary shares outstanding during 2020 and 2019.

	Year ended 31 December	
	2020	2019
Profit attributable to owners of the Company (<i>RMB'000</i>)	40,846	27,820
Weighted average number of ordinary shares in issue	400,461,481	300,000,000
Basic earnings per share for profit attributable to the owners of the Company (expressed in RMB cents per share)	<u>10.2 cents</u>	<u>9.3 cents</u>

Diluted earnings per share is equal to basic earnings per share.

10. INVENTORIES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	25,427	23,300
Work in progress	3,688	2,818
Finished goods	26,028	16,583
Provision for impairment of inventories	(112)	(30)
	<u>55,031</u>	<u>42,671</u>

11. TRADE RECEIVABLES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables due from third parties	82,889	65,877
Less: allowance for impairment of trade receivables	<u>(1,784)</u>	<u>(957)</u>
Trade receivables – net	<u>81,105</u>	<u>64,920</u>

Trade receivables all arise from sales of goods.

As at 31 December 2020 and 2019, the gross carrying amounts of trade receivables before provision are denominated in the following currencies:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
United States dollars	77,908	63,915
RMB	<u>4,981</u>	<u>1,962</u>
	<u>82,889</u>	<u>65,877</u>

As at 31 December 2020 and 2019, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	31,216	37,034
Over 30 days and within 180 days	49,011	26,799
Over 180 days and within one year	963	1,296
Over one year and within two years	1,022	708
Over two years	637	–
Over three years	<u>40</u>	<u>40</u>
	<u>82,889</u>	<u>65,877</u>

As at 31 December 2020 and 2019, the fair value of trade receivables approximated their carrying amounts. Sales of products are received in accordance with the terms of the relevant sales agreements, and due for payment upon the issuance of invoice.

The Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets. The expected loss rates are based on the payment profiles of sales over a period of 36 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the factors such as GDP of the countries in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. As at 31 December 2020 and 2019, the Group does not hold any collateral as security over these debtors.

	31 December 2020 ECL Rate	31 December 2019 ECL Rate
Within 30 days	0.14%	0.08%
Over 30 days and within 180 days	0.32%	0.17%
Over 180 days and within one year	32.26%	22.77%
Over one year and within two years	58.33%	77.47%
Over two years	100.00%	100.0%

Movements in the provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	(957)	(453)
Provision for impairment	(827)	(504)
	<hr/>	<hr/>
At the end of the year	<u>(1,784)</u>	<u>(957)</u>

12. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments		
– Advances to suppliers	5,619	10,266
– Listing expenses	–	6,966
– Prepaid income tax	–	416
– Prepaid value-added tax	810	4,199
	<u>6,429</u>	<u>21,847</u>
Other receivables		
– Deposits	892	513
– Advances to employees	858	650
– Recoverable value-added tax	7,313	3,386
– Amounts due from related parties	409	468
– Others	64	911
	<u>9,536</u>	<u>5,928</u>
Total	<u>15,965</u>	<u>27,775</u>
Less: Allowance for impairment of other receivables	<u>(212)</u>	<u>(209)</u>
	<u><u>15,753</u></u>	<u><u>27,566</u></u>

Movements in the provision for impairment of other receivables are as follows:

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	(209)	(51)
Provision for impairment	<u>(3)</u>	<u>(158)</u>
At the end of the year	<u><u>(212)</u></u>	<u><u>(209)</u></u>

13. SHARE CAPITAL AND SHARE PREMIUM

On 13 November 2018, the Company was incorporated in the Cayman Islands. At the date of incorporation, the authorised share capital is HK\$380,000 at par value of HK\$0.001.

Ordinary shares issued and fully paid:

	Number of ordinary shares	Nominal value of shares HK\$	Equivalent nominal value of shares RMB	Share premium RMB'000
At 1 January 2019, 31 December 2019 and 1 January 2020	70,000	70	61	163,681
Shares issued pursuant to capitalisation of shares (<i>note a</i>)	299,930,000	299,930	265,615	(266)
New shares issued pursuant to the share offer (<i>note b</i>)	<u>105,042,000</u>	<u>105,042</u>	<u>93,091</u>	<u>106,863</u>
At 31 December 2020	<u>405,042,000</u>	<u>405,042</u>	<u>358,767</u>	<u>270,278</u>

Notes:

- (a) Pursuant to the proposed offering of the Company's shares, on 16 January 2020, the Company issued additional 299,930,000 shares, credited as fully paid, to the existing shareholders of the Company, by way of capitalisation of HK\$299,930 (approximately RMB266,000) standing to the credit of the Company's share premium account.
- (b) On 16 January 2020, the shares of the Company were listed on the Stock Exchange. In connection with the listing, 100,000,000 shares of HK\$0.001 each were issued at the offer price of HK\$1.28 with gross proceeds of HK\$128,000,000 (approximately RMB113,356,000). In the current financial period, approximately RMB89,000 was credited to the share capital account and approximately RMB101,065,000 net of expenses related to issuance of shares of approximately RMB12,202,000 was credited to the share premium account.

On 5 February 2020, 5,042,000 over-allotment shares were issued and allotted by the Company at HK\$1.28 with proceeds of HK\$6,454,000 (approximately RMB5,801,000). In the current financial period, approximately RMB5,000 was credited to the share capital account and approximately RMB 5,797,000 was credited to the share premium account.

14. TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables due to third parties	45,845	19,452
Other payables due to:	5,398	12,719
– related parties	—	269
– third parties	5,398	12,450
Staff salaries and welfare payables	5,624	13,546
Accrued taxes other than income tax	1,472	1,098
	<u>58,339</u>	<u>46,815</u>

As at 31 December 2020 and 2019, all trade and other payables of the Group were non-interest bearing.

15. DIVIDENDS

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends	<u>20,625</u>	<u>—</u>

During the year ended 31 December 2020, the Company declared and paid dividends of HK\$0.06 per share to its then shareholders.

During the year ended 31 December 2019, no dividends were declared and paid by the Company.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2020.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

Neither the Company nor any of the subsidiaries of the Company purchased, redeemed or sold the listed securities of the Company during the period from 16 January 2020 (date of the Listing) to 31 December 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "CG Code"). Save as disclosed below, the Company has complied with the CG Code for the period from 16 January 2020 (date of the Listing) to 31 December 2020.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive and Mr. JIN Jianxin currently performs these two roles. Throughout the Group's business history, Mr. Jin, being a founder of the Group and a controlling shareholder of the Company, has held the key leadership position of the Group and has been deeply involved in the formulation of corporate strategies and management of the business and operations of the Group since its establishment. Taking into account the consistent leadership within the Group, the Board believes that it is in the best interests of the Group and the shareholders of the Company as a whole to have Mr. Jin taking up both roles for effective and efficient overall strategic planning and continuation of the implementation of such plans for the Group. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial information in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2020 as set out in this announcement has been agreed by the Company's external auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

REVIEW BY THE AUDIT COMMITTEE

The results of the Company for the year ended 31 December 2020 has been reviewed by the audit committee of the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Friday, 4 June 2021. The notice of the AGM will be issued and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 1 June 2021 to Friday, 4 June 2021, both days inclusive, for the purpose of ascertaining the entitlement of the shareholders of the Company to attend and vote at the AGM. In order to be entitled to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 31 May 2021.

DEFINITION

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

“AGM”	the annual general meeting of the Company to be held in Hong Kong on Friday, 4 June 2021
“Board”	the board of Directors
“China” or “PRC”	The People's Republic of China and, except where the context requires and only for the purpose of this announcement, references to China do not include Taiwan, Hong Kong or the Macao Special Administrative Region of the PRC
“Company”	Kwung's Holdings Limited
“COVID-19”	The novel coronavirus disease 2019
“Director(s)”	director(s) of the Company
“Group”, “our Group”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing”	listing of Shares on Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ningbo Kwung’s”	Ningbo Kwung’s Wisdom Art & Design Co., Ltd. (寧波曠世智源工藝設計有限公司), a company established in the PRC with limited liability on 4 January 1999, and a wholly-owned subsidiary of the Company
“Prospectus”	prospectus of the Company dated 30 December 2019
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
Kwung’s Holdings Limited
JIN Jianxin
Chairman

Hong Kong, 31 March 2021

As at the date of this announcement, the executive Directors are Mr. JIN Jianxin, Mr. RU Liming and Mr. TIAN Dong; the non-executive Director is Mr. SHAO Patrick; and the independent non-executive Directors are Mr. LAI Chun Yu, Mr. YANG Herong and Mr. ZHOU Kai.